

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF JACKSON COUNTY RURAL	)	
ELECTRIC COOPERATIVE CORPORATION FOR A	)	CASE NO.
CHANGE IN DEPRECIATION RATES	)	97-138

O R D E R

On January 7, 1997, Jackson County Rural Electric Cooperative Corporation ("Jackson County") filed a letter requesting Commission approval for a change in general<sup>1</sup> plant depreciation rates for plant acquired after January 1, 1997. Included with the filing were two letters between Jackson County and the Rural Utilities Service ("RUS"), a federal agency under the United States Department of Agriculture. A formal depreciation study was not filed.

The first letter, dated October 7, 1996, was from Jackson County to the RUS requesting approval to adjust general plant depreciation rates. In support of this request, Jackson County indicated that many items such as calculators, copy machines, computers, vehicles, and communication units are being replaced before they are fully depreciated. An example given was computers, which Jackson County has found are obsolete after 4 or 5 years.

---

<sup>1</sup> General plant accounts contain items that are used to support utility operations, such as office furniture and vehicles, but are not directly used to provide utility service.

The second letter, dated December 19, 1996, was from the RUS granting approval of the proposed depreciation rates for a 5-year period beginning January 1, 1997. The RUS indicated that if Jackson County wished to continue to use depreciation rates that vary from those prescribed in RUS Bulletin 183-1, Depreciation Rates and Procedures, beyond this 5-year period, it should file a revised request. If future requests are to be filed, Jackson County is directed carefully to review the nature and composition of each account; estimate the expected useful service life, cost of removal, and salvage; consider any external factors such as operating practices and maintenance policies that may have an impact upon their estimated useful service life; and develop depreciation rates that best address these characteristics. These elements are typically contained in depreciation studies.

The Commission requested Jackson County to provide information that would compare the impact of the proposed depreciation rates on annual depreciation accruals, based upon end-of-year 1996 plant balances. Jackson County provided the information and modified its filing to provide that the proposed depreciation rates will apply to plant acquired before and after January 1, 1997.

Applying existing rates to December 31, 1996 plant balances results in annual accruals of \$3,220,212 while the proposed rates would result in \$3,402,644, which is an increase of \$182,432 annually. This increase is primarily attributable to increases in 4 accounts:

Account Number	Description	Existing Rate	Proposed Rate
391.00	Office Furniture and Equipment - General	6.00 %	15.00 %
391.01	Office Furniture and Equipment - Computers	6.00 %	25.00 %
392.00	Transportation Equipment - Cars and Trucks	15.00 %	20.00 %
392.00	Transportation Equipment - Cab and Chassis	15.00 %	20.00 %

The Commission traditionally does not approve changes in depreciation rates without a supporting depreciation study. However, considering the nature of the accounts most affected, the Commission recognizes that it is possible for reasonable judgment to be nearly as accurate as a depreciation study when estimating the service life characteristics of these accounts. Even when such studies are performed, considerable judgment is still required to develop reasonable estimates. On the other hand, even though a depreciation study might not be needed to demonstrate that a 4-year service life is a more reasonable estimate than a 17-year life for personal computers, it is possible that 3 years or 5 years may be a better estimate than 4. There is also the possibility that although a 5-year service life seems reasonable for vehicles, this value may not accurately reflect the value of positive net salvage. These are the types of refinements that a depreciation study brings.

Mindful that depreciation estimates are simply that - estimates - and that the proposed changes will have limited financial impact, the Commission will approve the proposed depreciation rates for 5 years under the same terms imposed by the RUS. If Jackson County wishes to continue to use depreciation rates that fall outside of the RUS's

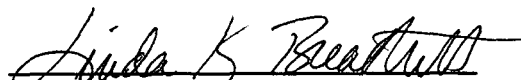
prescribed ranges, Jackson County should perform a formal depreciation study to support its use of those rates.


IT IS THEREFORE ORDERED that:

1. Jackson County's proposed depreciation rates, as reflected in its application, are approved for 5 years beginning January 1, 1997.
2. Any request to continue to use depreciation rates that are not within the RUS's prescribed ranges shall be supported by a depreciation study.

Done at Frankfort, Kentucky, this 18th day of August, 1997.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

  
Executive Director